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ANNUAL REPORT 1976

FIVE YEAR FINANCIAL HIGHLIGHTS

For the Year (in \$ 000)	1976	1975	1974	1973	1972
Sales	\$18,531	\$14,064	\$14,792	\$19,360	\$13,945
Earnings (Loss)	1,535	371	(386)	1,860	1,280
Earnings as % of Sales	8.3%	2.6%	(2.6%)	9.6%	9.2%
Depreciation & Amortization	752	586	646	639	518
Cash Flow	2,637	988	478	2,830	1,930
Capital Expenditures	2,080	409	894	2,075	996
Dividends Paid	277	101	252	256	182
Per Share Amounts					
Earnings (Loss)	\$ 1.53	\$.37	\$ (.38)	\$ 1.85	\$ 1.27
Cash Flow	2.62	.98	.48	2.81	1.92
Dividends Paid	.37 1/2	.10	.25	.25	.15
Shareholders' Equity	5.63	4.38	4.09	4.75	3.15
Year End Position (in \$000)					
Working Capital	\$ 635	\$ 611	\$ 573	\$ 1,556	\$ 736
Long-Term Debt Including					
Current Installments	\$ 248	\$ 964	\$ 1,490	\$ 2,301	\$ 1,658
Shareholders' Equity	5,662	4,404	4,133	4,777	3,173
Common Shares Outstanding (in 000's shares)	1,006	1,006	1,006	1,006	1,006

Note: The above amounts have been restated as required to reflect accounting changes and the 1973 two for one share split; earnings are before extraordinary items.



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DIRECTORS' REPORT TO THE SHAREHOLDERS

1976 IN REVIEW

Your company experienced improvements in 1976 which resulted in one of the more successful years in Balco Industries Ltd.'s thirty years of operation. Consolidated earnings for the year were \$1,534,683 or \$1.53 per share, a substantial improvement over 1975 consolidated earnings of \$371,468 or 37 cents per share. Consolidated sales totalled \$18,530,803 up from the previous year's total of \$14,064,334.

The improvement in earnings for Balco Industries Ltd. is attributable to a number of factors. These include an increased volume of sales, improved prices, better product recovery from logs, lower labour turn-over, and to the diligent effort by all employees, who deserve a good deal of the credit for this achievement. Their efforts in the performance of their individual duties are appreciated. We also acknowledge with appreciation, the management personnel for their dedication and direction of the company's affairs.

The lumber market performed better than anticipated with shipments totalling 64.3 million board feet. Average sales returns were higher than for 1975, and for the first time in the past five years, a small volume of lumber was shipped overseas, a trend which is showing a stronger upward swing. We have encouraged offshore business to diversify our markets, strengthen our product sales and thus lessen our exposure to the cyclical nature of the North American market. Our lumber sales agreement with Canadian Forest Products Ltd. has been a satisfactory arrangement and has been renewed for 1977.

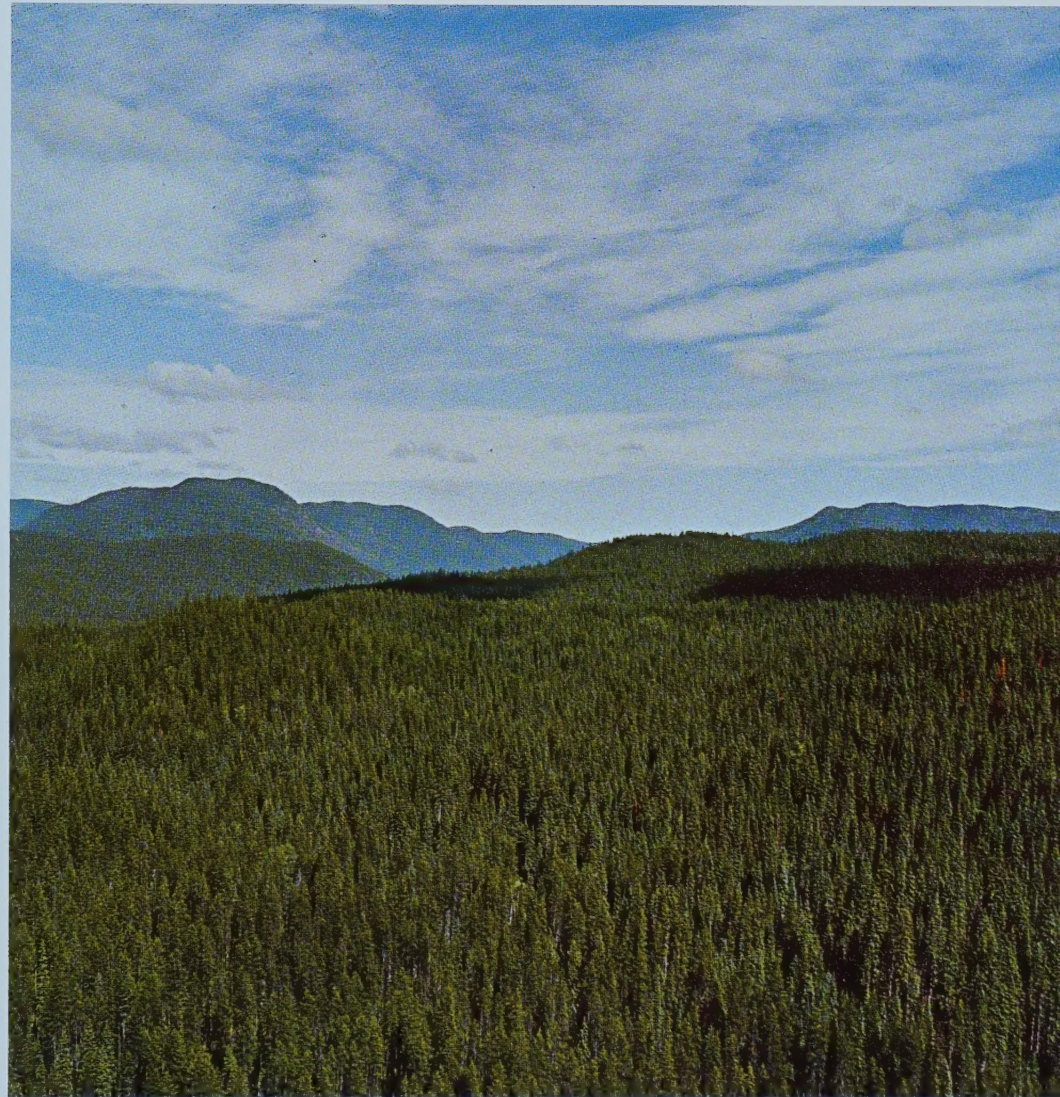
The plywood market was firm during



the first six months, but in the second half of the year, its performance was less than anticipated, because of the poor demand. Overall however, our shipments totalled 358.3 million sq. ft. (1/16" basis): a 25% increase over 1975 plywood sales. As in the case of lumber, we have encouraged the expansion of offshore markets to lessen our dependence on the Canadian market. Inventories at year end in both lumber and plywood were at acceptable levels.

By-product sales, while being substantially higher than in 1975, when the pulp industry experienced a lengthy strike, were far from satisfactory. Our chip inventory increased by 3,100 bone dry units, in spite of our planned reduction of chip production. As reported to you last year, the disposal of this inventory would take some time, considering the unfavourable demand and oversupply situation. This supply/demand imbalance has remained unchanged. However, as a member of the Okanagan-Mainline Independent Chip Producers Cooperative, considerable effort to develop a market for the surplus chips, has been made. To date, results have been unspectacular, but the group has obtained an export permit, the government has eliminated the export tax on chips and there is a possibility of the construction of a deep-sea loading facility. Thus, some optimism for offshore marketing is being currently expressed. In summary, the by-product outlook is far from bright, at least on a near term basis.

Rail car supply was adequate during the year. We did however, experience some shortages locally of specialized rail equipment. Our fleet of lease cars operated in conjunction with Canfor



has been satisfactory. With the reduction in turn-around time coupled to an improvement in the mileage allowance, lease cars have contributed to our overall operation.

A concerted effort to minimize the escalation of costs while at the same time striving to improve productivity was made by all departments. Un-

fortunately, costs over which we have minimal influence, including such items as property tax, fuel costs and other services, have increased disproportionately.

In addition, the two year collective agreement negotiated in 1975 with the I.W.A. provided substantial wage increases, COLA clause and other bene-

DIRECTORS' REPORT TO THE SHAREHOLDERS (cont.)

fits. The total payments to our 380 employees, for wages, salaries and benefits, increased to \$6.28 million, from \$4.83 million in 1975. With no contract negotiations during 1976, and with the depressed economic atmosphere in the Kamloops area, our labour turnover rate was exceptionally low.

Woodlands operations harvested 14.3 million cubic feet of timber during the year, while at the same time ensuring the orderly development of next year's raw material supply and the proper rehabilitation of the cut-over lands. All licenses are currently in good standing, the contractor work force is healthy and the annual allowable cut is in balance.

FINANCIAL

In 1976, your company spent in capital expenditures for new plant and equipment and forest access roads, a total of \$2,079,893. The disposal of fixed assets totalled \$65,386. The largest expenditure was the installation of a second veneer dryer for the Plywood Division. This facility will not only add flexibility to the production process but will improve our product and enable us to increase productivity. Working capital increased marginally in 1976 to \$634,948 from \$611,814 in 1975.

The company's bank term loan of \$715,000 at 1975 year end was completely retired. However, a further long term loan of \$72,000 was arranged for the purchase of equipment, increasing the company's long term debt at year end to \$143,137.

The improvement in your company's financial position makes it possible to maximize any future opportunities that may be considered to be in the best interest of the company.

AFFILIATES & SUBSIDIARIES

Pacific Overland Timber Ltd., Balco's lumber wholesale affiliate, experienced a disappointing year. In spite of the efforts of its management to reorganize and adopt cost-cutting programs, a loss of \$49,206 was experienced, of which Balco absorbed \$24,603. The directors of your company have decided that it would be prudent to have the company dispose its interest in Pacific Overland Timber Ltd. and negotiations to this end are underway.

Waymark Services Ltd. contribution to the overall earnings was down slightly from the 1975 contribution to earnings. The severe competition at the beginning of the year, which affected earnings was reversed by mid-year and they were able to improve the earnings in the last quarter.

DIVIDENDS

In keeping with the Directors' decision in 1975 which re-instituted payment of semi-annual dividends, your company paid a ten cent dividend in May 1976. The directors in September 1976, declared a dividend of five cents per share which was paid on October 1, 1976 and a further dividend of twelve and one-half cents which was paid in November 1976.

OUTLOOK FOR 1977

We approached 1977 with a restrained degree of optimism. This optimism was based on the improved economic outlook in the U.S., which appears to be strengthening. Of particular note is the housing forecast. The National Association of Home Builders is forecasting 1.83 million starts, of which single family units are forecast to be





1.35 million, an increase of 15% over 1976. It is therefore anticipated that the demand for Canadian lumber will improve in 1977.

The Canadian housing outlook, on the other hand, does not show the same strength. Housing starts in Canada for 1977 are forecast at 225,000 to 240,000 starts, down from 270,000 starts in 1976. This decrease in Canadian housing will affect our sales of lumber and plywood in Canada. The one redeeming factor is that with the accelerated housing in the U.S., the volume of ply-

wood available for shipment to the Canadian market from the U.S. will be reduced.

In lumber, the percentage of shipments to markets other than the U.S. and Canada should improve this year. The bulk of enquiries from offshore markets are for CLS lumber, which will enable us to ship from inventory. Previously, waterborne enquiries were for specifications which we were unable to fill.

In the past, about 8% — 9% of our plywood has been sold to offshore

markets. We have always endeavoured to ship at least 20% but have never attained this volume. However, so far in 1977, we have been able to export in excess of 20% and it appears that this trend will continue.

Restraining factors which could dramatically affect our performance in 1977 include inflation, government involvement, by-product sales and labour negotiations. The state of the pulp industry will have a very real effect on our ability to sell by-products, and in spite of our efforts to decrease

DIRECTORS' REPORT TO THE SHAREHOLDERS (concl.)

the volume of chips produced, we are likely to add to the stockpile, unless current negotiations with offshore customers are successful.

It is hoped that the demands of the I.W.A. will enable the industry to negotiate an agreement which will permit the industry to continue to provide steady employment to its employees, provide more job opportunities and will not impair our competitive ability nor erode the years of effort spent in developing overseas markets.

While improved economic forecasts are being predicted in our major market area, the extremely severe winter which was just experienced in the Eastern U.S. and its attendant drain of available capital through the unusually high consumption of energy, will no doubt affect the rate in economic activity in the U.S. This in turn will place an obstacle towards the attainment of their housing goals for 1977. Already, the weather has affected the availability of rail cars. This will adversely affect the anticipated shipments to this important market.

The company's 1977 capital expenditure program is an ambitious \$4.065 million; this amount includes \$480,000 for main roads and \$605,000 in projects carried forward from 1976. The major expenditure is the construction of a new planer mill facility at a cost of \$2.1 million.

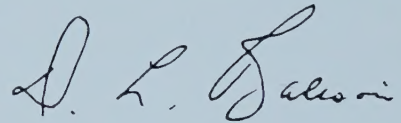
This year was the thirtieth anniversary of Balco. In 1946, A. L. (Bert) Balison and his sons Alf and Dave, formed a partnership, pooled their resources totalling \$5,000 and started sawing lumber at Heffley Lake. From this pioneering beginning, in 1946, which produced one-half million f.b.m. of lumber

annually, Balco is now a modern complex capable of producing 65 million f.b.m. of lumber and 375 million sq. ft. (1/16") of plywood annually. This was accomplished through hard work, know-how, foresight and confidence in the future. We are confident that the present management team possesses these same attributes and will look forward at some future date to recounting the advances made since 1976.

We wish to take this opportunity to extend our appreciation to our employees

for their efforts; to our contractors and suppliers whose assistance is so essential to our progress, and to the shareholders for their confidence.

On behalf of the Directors



D. L. Balison
President

March 1977



Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Balco Industries Ltd. and subsidiary companies as at November 30, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Tarrell, Good & Elliot

Chartered Accountants

Kamloops, B.C.
January 18, 1977

Consolidated Statement of Earnings

For the year ended November 30, 1976

	1976	1975
Sales	\$ 18,530,803	\$ 14,064,334
Costs and expenses		
Cost of sales	13,759,346	11,814,392
Depreciation and amortization	752,360	585,609
Administration and other expenses	842,749	744,115
Interest - on current debt	12,430	70,441
- on long-term debt	52,382	129,328
	15,419,267	13,343,885
Earnings from operations	3,111,536	720,449
Equity in net (loss) of 50% owned company	(24,603)	(9,079)
Earnings before income taxes	3,086,933	711,370
Provision for income taxes - current	1,202,162	309,382
- deferred	171,050	30,520
Earnings before extraordinary item	1,713,721	371,468
Extraordinary item - note 5	179,038	
Earnings for the year	\$ 1,534,683	\$ 371,468
Earnings per share		
Earnings before extraordinary item	\$ 1.70	\$.37
Earnings for the year	\$ 1.53	\$.37

Consolidated Statement of Retained Earnings

For the year ended November 30, 1976

	1976	1975
Balance at beginning of year	\$3,097,222	\$2,826,354
Earnings for the year	1,534,683	371,468
	4,631,905	3,197,822
Dividends	276,650	100,600
Balance at end of year	\$4,355,255	\$3,097,222

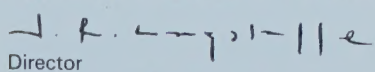
The accompanying notes are an integral part of these Financial Statements

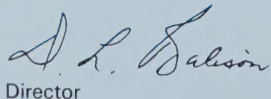
Consolidated Balance Sheet

As at November 30, 1976

	1976	1975
Current assets		
Cash	\$ 833,803	\$ 52,234
Accounts receivable - note 3	1,763,163	1,741,276
Inventories - notes 2 and 3	1,804,124	1,250,275
Prepaid expenses and refundable deposits	13,889	69,525
	4,414,979	3,113,310
Less current liabilities		
Bank indebtedness - note 3		251,574
Accounts payable	2,411,263	1,293,517
Dividends payable		100,600
Income taxes payable	1,263,659	329,271
Long-term debt instalments due within one year	105,109	526,534
	3,780,031	2,501,496
Working capital	634,948	611,814
Invested capital		
Timber deposits and private timber	122,636	95,670
Property, plant and equipment - note 4	5,957,861	4,665,958
Investment in affiliated company - note 5	67,341	270,981
Deferred charges less amortization - note 6	69,593	73,352
	6,217,431	5,105,961
Less:		
Long-term liabilities - agreements and mortgages payable - note 7	143,137	437,616
Deferred income taxes	1,047,320	876,270
	1,190,457	1,313,886
Net invested capital	5,026,974	3,792,075
Shareholders' equity	\$5,661,922	\$4,403,889
Represented by:		
Common shares without par value		
Authorized 2,000,000 shares		
Issued and fully paid 1,006,000 shares	\$1,290,000	\$1,290,000
Retained earnings	4,355,255	3,097,222
Capital surplus	16,667	16,667
Shareholders' equity	\$5,661,922	\$4,403,889

Approved on behalf of the board


Director


Director

The accompanying notes are an integral part of these Financial Statements

Consolidated Statement of Changes in Financial Position

For the year ended November 30, 1976

	1976	1975
Source of working capital		
Earnings before extraordinary item	\$1,713,721	\$ 371,468
Items not involving working capital		
Depreciation and amortization	752,360	585,609
Deferred taxes	171,050	30,521
Equity in loss of 50% owned company	24,603	9,079
	2,661,734	996,677
Net proceeds from disposal of assets	35,629	4,117
Reduction in deferred charges	3,759	62,272
Assumption of long-term debt	72,000	
Other sources of working capital		12,460
	2,773,122	1,075,526
Application of working capital		
Investment in plant and equipment	1,858,416	330,143
Investment in forest access roads	221,477	79,280
Payments on long-term debt	366,479	526,805
Payment of dividends	276,650	100,600
Purchase of private timber	26,966	
	2,749,988	1,036,828
Increase in working capital	23,134	38,698
Working capital at beginning of year	611,814	573,116
Working capital at end of year	\$ 634,948	\$ 611,814

The accompanying notes are an integral part of these Financial Statements

Notes to Consolidated Financial Statements

November 30, 1976

1. Summary of significant accounting policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of Balco Industries Ltd. and its subsidiaries, all wholly-owned: Active - Waymark Services Ltd. Inactive - Balco Building Supplies Ltd., Bal Crete Construction Materials Ltd., Interior Block Manufacturing (1964) Ltd. The investment in Pacific Overland Timber Ltd., a 50% owned company, is accounted for on the equity basis.

b) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined by a weighted average cost method.

c) Property, Plant & Equipment

Property, plant and equipment includes cost of major replacements and betterments. Maintenance, repairs and minor replacements are charged against income as incurred.

d) Depreciation and Amortization

Depreciation of property and equipment is provided on a straight line basis at rates varying from 4% to 20%. The application of these rates for the year ended November 30, 1976 results in a composite rate of 7.5%. The rate for each class of property is based on estimated economic life.

Logging roads are amortized as timber is harvested at rates determined with reference to volumes of timber estimated to be removed over such facilities.

e) Deferred Charges

Certain forestry and reforestation costs are deferred each year and amortized at varying rates averaging 50¢ per cunit. This is the rate allowed by the Province of B.C. as a reduction of stumpage charges for providing forest management and for reforestation of Timber Harvesting Licences.

f) Deferred Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between accounting and taxable income.

2. Inventories

	1976	1975
Logs	\$ 854,058	\$ 457,000
Lumber	513,000	485,000
Veneer	113,000	66,000
Plywood	126,000	54,000
Fuel, oil, parts and supplies	198,066	188,275
	\$1,804,124	\$1,250,275

3. Bank indebtedness

The company has granted its bank a general assignment of accounts receivable and hypothecation of inventories to secure any indebtedness which may arise.

4. Property, plant and equipment	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$ 297,765		\$ 297,765
Plant and equipment	8,233,835	\$2,834,099	5,399,736
Roads	1,291,296	1,030,936	260,360
Total	\$9,822,896	\$3,865,035	\$5,957,861

5. Investment in affiliated company

The company holds 50% equity in Pacific Overland Timber Ltd. The company's share of the loss was \$24,603 in 1976 and \$9,079 in 1975. The investment is reflected on the balance sheet on an equity basis, and the difference between the cost and the underlying equity at the date of acquisition of \$179,038 has been charged against current earnings as an extraordinary item.

6. Deferred charges

Forestry and reforestation expenditures	\$25,847
Prepaid equipment rentals	43,746
	\$69,593

7. Agreements and mortgages payable

	Principal Payments Due Within One Year	Total
First Mortgage on service centre payable in monthly instalments of \$1,232 including interest at 8½ % per annum, maturing in September 1979	\$ 10,790	\$ 48,268
Chattel Mortgage secured by certain plywood equipment payable in quarterly instalments of \$19,080 at an interest rate not to exceed 8¼ % per annum	76,319	114,478
Agreement Payable, unsecured, payable in monthly instalments of \$1,500 with interest at 9% per annum	18,000	85,500
	\$105,109	248,246
Principal payments due within one year		105,109
		\$143,137

8. Remuneration to directors and senior officers

Remuneration to directors and senior officers (as defined by the B.C. Companies Act) of the company in their capacities as directors, officers and employees of the company in the current fiscal period was \$219,222 (1975 - \$200,294) including \$58,951 to directors, of which \$7,100 was directors' fees.

9. Commitments and contingent liabilities

The company has entered into agreements to lease equipment for varying terms expiring in 1977 and rentals under these leases for the year under review, amounted to \$127,550. Total commitment under these leases at November 30, 1976 is \$45,411, all of which is payable in 1977.

The company has given a guarantee which is limited to 50% of the amount of the loan outstanding and limited to a maximum of \$250,000 of an affiliated company's bank loan which at November 30, 1976 totalled \$175,000.

10. Anti-inflation act

The company is subject to the Anti-Inflation Act by virtue of its association with Canadian Forest Products Ltd. and accordingly is subject to controls on prices, profits, compensation and dividends.

The company has provided for compliance for the years ended November 30, 1975 and 1976.

DIRECTORS OF THE COMPANY

- D. L. Balison,**
President and Chief Executive Officer,
Balco Industries Ltd., Kamloops, B.C.
- P. J. G. Bentley,**
President,
Canadian Forest Products Ltd., Vancouver, B.C.
- J. G. Chaston,**
Chairman of the Board,
Pemberton Securities Ltd., Vancouver, B.C.
- R. L. Cliff,**
Chairman of the Board,
Inland Natural Gas Co. Ltd., Vancouver, B.C.
- J. R. Longstaffe,**
Executive Vice President,
Canadian Forest Products, Vancouver, B.C.
- L. W. Mayes,***
President,
Pacific Overland Timber Ltd., Vancouver, B.C.
- J. A. Robinson,**
Vice President,
Coast Wood Products Manufacturing
Canadian Forest Products Ltd., Vancouver, B.C.
- W. M. Robson,**
Vice President,
Marketing and Transportation, Wood Products,
Canadian Forest Products Ltd., Vancouver, B.C.

OFFICERS OF THE COMPANY

- D. L. Balison,**
President and Chief Executive Officer,
Kamloops, B.C.
- T. G. Jeanes,**
Vice President, Woodlands, Kamloops, B.C.
- J. Miyazawa,**
Vice President, Administration, Kamloops, B.C.
- L. H. Rodrigue,**
Vice President, Production, Kamloops, B.C.
- J. Y. Obana,**
Treasurer, Kamloops, B.C.
- R. F. Weinman,**
Secretary, Vancouver, B.C.

BUSINESS LOCATIONS

Company Offices:

R.R. No. 3, Kamloops, B.C. V2C 5K1

Auditors:

Jarrett, Goad & Elliott, Chartered Accountants,
Kamloops, B.C.

Solicitors:

Rogers, Hunter & Company, Kamloops, B.C.

Bankers:

Canadian Imperial Bank of Commerce,
Kamloops, B.C.

Transfer Agent and Registrar:

Montreal Trust Company, Vancouver, B.C.

Wholly-Owned Subsidiaries:

Bal Crete Construction Materials Ltd.,
Kamloops, B.C.
Balco Building Supplies Ltd., Kamloops, B.C.,
Interior Block Manufacturing (1964) Ltd.,
Kamloops, B.C.
Waymark Services Ltd., Kamloops, B.C.

Affiliated Company:

Pacific Overland Timber Ltd., Vancouver, B.C.

Annual General Meeting:

Tuesday, May 3, 1977 at 5:00 p.m. in the
Canadian Inn, Kamloops, B.C.

* Resigned as of March 4, 1977

